The $5 Trillion Problem

One of the big unknowns bearing down on the U.S. will be the impact of underfunded state and local government pension plans. On a national basis, public pensions are short an estimated $5 trillion of the funds they need to meet future obligations according to the Actuarial Standards Board's Pension Task Force. Under current practices, the public pensions industry maintains the deficit is merely a $1-3 trillion number.

Based on current standards, the states with the worst underfunding as of 2015 data are:

- New Jersey - 37% funded
- Kentucky - 40% funded
- Illinois - 40% funded
- Connecticut - 49% funded
- Pennsylvania - 56% funded
- South Carolina - 58% funded

The states actually look relatively healthy compared to the worst of the cities based on unfunded liabilities:

- Chicago, Illinois - 28% funded
- Springfield, Massachusetts - 29.5% funded
- Portland, Oregon - 35% funded
- Newark, New Jersey - 35% funded
- Charleston, West Virginia - 38% funded
- Billings, Montana - 41% funded

A bear market could put them even further underwater. With only three sources for funding liabilities - employee contributions, government/employer contributions and investment gains - underfunded public pensions could indicate (1) dramatic tax increases on the horizon, (2) reduced benefits and/or increased employee contribution requirements or (3) bankrupt public entities.

Source: Center for State and Local Government Excellence - Public Plans Database

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